Fennia

2012 Annual Report and Financial Statements

FENNIA LIFE

Contents

Difficult choices

"Choose wisely, you fool!" I have heard people say in southern Finland in situations where the correct decision is not immediately obvious.

This was the reality we were confronted with in 2012, especially in economic policy. It was also the reality that company managements often had to face: fluctuations in the investment market, the economy sliding into recession and the rise in IT service costs in particular made it difficult to make smart decision. In addition, the increase in regulations that weaken the opportunities of life insurance companies and increase their costs and the related short transitional periods created challenges for management.

In the final analysis, Fennia Life's year was excellent based on the figures – as can be inferred from the Report of the Board of Directors and the Financial Statements. The company and its management had the capability to make the right choices.

I wish to extend my thanks to Fennia Life's personnel who have maintained their excellent team spirit even through difficult situations. I also wish to thank all our professional partners for the past year, both those within the Fennia Group and outside it. We are satisfied, but we want more.

We need to make progress in the process of correcting an error in the tax legislation that has been there for over a decade. I hope that in future we will be able to provide our customers with services where an insurance innovation could enable the use of real estate or financial assets to fund a monthly pension even for the remainder of the insured's life. And in such a manner that the said pension would not be taxed in its entirety, as is the case now, but only its return on capital – this is the normal method of taxation in Finland.

Contrary to what is often believed, lifelong pensions are not an unambiguously simple issue for life insurance companies. However, no other body in society is able to bear the risk related to the unpredictability of lifespan as cost-efficiently. As bodies balancing the risk related to life expectancy, life insurance companies would also act as catalysts for economic growth, and therefore society should actually support this kind of risk-taking. However, I do not even wish for any tax incentives for premiums as they probably entail a political and administrative risk that is so high that we do not have the resources to bear it.

Fennia Life will continue to offer life insurance to mitigate the financial consequences of death or disability to secure the future of companies as well as entrepreneurs and their families. We also develop long-term solutions that improve voluntary pension provision together with companies and create lucrative and clear options for increasing assets.

Thank you for your confidence in us.
Seppo Rinta
Managing Director

Report of the Board of Directors 2012

Fennia Life Insurance Company's operating year was positive in many respects, and the company's result was good. The company's volume continued to grow as a result of strong sales and the increase in the portfolio's premiums written. The company's solvency position strengthened and remains very satisfactory.

Fennia Life is jointly owned by the mutual insurance companies Fennia (60%) and Pension Fennia (40%).

Insurance business

Fennia Life's premiums written increased 14 per cent to a new record, EUR 90.5 million (EUR 79.5 million). Due to the increase in the sector's premiums written, as estimated in the preliminary information by the Federation of Finnish Financial Services, Fennia Life's market position remained the same. Of the company's total premium income, life insurance accounted for EUR 61.6 million (EUR 49.0 million) and pension insurance for EUR 28.9 million (EUR 30.5 million). Premium income on unit-linked insurances was EUR 45.1 million (EUR 37.8 million), accounting for 50 per cent (48%) of the total premium income. Premium income on regular premium contracts stood at EUR 47.9 million (EUR 47.4 million), accounting for 53 per cent (60%) of the total premium income.

Claims paid increased to EUR 63.6 million (EUR 61.8 million), with surrenders accounting for EUR 15.4 million (EUR 15.1 million). The repayment of benefits amounted to EUR 8.3 million (EUR 4.8 million). Pensions were paid in the amount of EUR 31.0 million (EUR 29.8 million) and death and disability benefits in the amount of EUR 4.3 million (EUR 8.6 million).

Operating expenses rose to EUR 10.8 million (EUR 10.0 million). The company was able to harness the rate of rise, even though the number and scope of development projects continued to grow. The rise in expenses is mainly due to the increase in maintenance expenses for IT systems and in depreciations. The expense ratio was 119.9 per cent (116.0%). However, without the fee and commission income, the expense ratio would have been 108.7 per cent (104.7%).

The total return on with-profit insurance savings varied between 2.8 and 4.5 per cent in 2012, depending on the line of insurance and quarter of the year. Client bonuses granted totalled EUR 1.7 million, of which EUR 0.2 million were funded from provisions for bonuses reserved earlier. Technical provisions were increased by an interest rate supplement of EUR 13.0 million (EUR 3.0 million).

Investments

The company's investment activities achieved an excellent result. The return on investments at current values was 9.3 per cent (1.1%), and investment income at current values amounted to EUR 57.8 million (EUR 6.8 million). The company's net investment income entered at profit or loss was EUR 62.3 million (EUR -27.2 million), of which unit-linked insurances accounted for EUR 28.7 million (EUR -45.6 million).

At year-end, Fennia Life's investment assets at current values (incl. accrued interests) stood at EUR 679 million (EUR 633 million). Bonds and long-term fund investments accounted for 48 per cent of the investment portfolio, and money market investments and deposits for 10 per cent. Shares, equity fund investments and private equity funds accounted for 21 per cent, real estate investments for 20 per cent and loan receivables and other investments for 1 per cent. In addition, the company had EUR 325 million (EUR 272 million) in assets covering unit-linked insurances.

Result and solvency

Fennia Life's operating profit was EUR 11.7 million (EUR 2.9 million). The Group's operating profit was EUR 11.8 million (EUR 1.7 million).

The company's solvency margin increased to EUR 130.0 million (EUR 98.3 million) and solvency capital to EUR 137.2 million (EUR 104.6 million). The solvency ratio rose to 21.8 per cent (17.4%) and is at a good level.

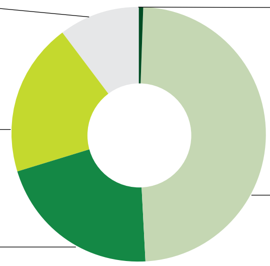
Administration and staff

During the year under review, the members of Fennia Life's Board of Directors were: Eero Lehti (Chairman), Matti Ruohonen (Vice Chairman), Deputy Managing Director Matti Carpén, Director Eeva Grannenfelt, Managing Director Antti Kuljukka and Chairman of the Board Antti Vaahto. Deputy Managing Director Eero Eriksson and Managing Director Olavi Nieminen served as deputy members of the Board. Seppo Rinta acted as Managing Director.

FENNIA LIFE, PARENT COMPANY

Investment Portfolio 31 Dec. 2012

EUR 679 million(EUR 633 million)



Return on investments

9.3 % (1.1%)

*Rate of return by investment category

The Board of Directors held a total of 11 meetings during the year under review. The attendance rate of the full members was 92 per cent and that of the deputy members 100 per cent.

The company employed an average of 48 people (47) in 2012.

Group structure

Fennia Asset Management Ltd, in which Fennia Life has a 100 per cent holding, has been included in the consolidated accounts.

At year-end, Fennia Life Group included 16 real estate companies wholly-owned by the company.

Asset management

Fennia Asset Management's first full reporting year was successful in terms of portfolio management. The return levels of the company's model portfolios ranged from 5.4 to 17.1 per cent. The company made a loss of EUR 0.8 million due to a slower than expected increase in sales. The parent company strengthened the capital of the company by EUR 0.5 million during the financial year. Efforts to extend the asset management business as part of Fennia Group's established services will continue during the current year.

Risk management and solvency management

The risk management and solvency management principles that are approved by the Boards of Directors of the Group companies serve as the foundation for Fennia Life's risk management. The steering of the risk management system is based on a three-defence-line model, which is described in more detail in the note concerning risk management.

A risk management committee has been set up for the Group's insurance companies to prepare, steer and co-ordinate tasks related to risk and solvency management and to communicate information.

Investment activities are based on the investment plan approved by the Board of Directors, which determines, among other things, the allocation of investments and the rights and responsibilities of those involved in investment activities. The company's risk-bearing capacity is taken into account in determining the allocation of investments.

Outlook for the current year

Prospects for 2013 are still marked by uncertainties. There is no guarantee that the real economy will find its way out of the downturn. It will be challenging for Fennia Life to achieve its growth target. However, the current economic situation highlights the importance of taking out basic insurance. Fennia Life will continue to base its success on the active offering of its services.

The outlook for investment activities is, at the very least, interesting. Similarly to last year, the current year offers an opportunity to achieve a moderate return on investment if changes in allocation are made at the right time. If the real economy takes a turn for the better, this will create the right conditions for equities to rise. If the economy strengthens, interest rates will probably also increase. The negative effect of rising interest rates on returns could partly be compensated for by the rise in equity prices. However, if the economic situation turns into a crisis or inflationary expectations rise sharply, interest rates will increase so significantly that the negative effect of the rising interest rates on returns cannot be compensated for by other asset classes. This will mean a negative investment result.

Profit and Loss Account

EUR 1,000	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011	Notes
TECHNICAL ACCOUNT					
Premiums written					
Premiums written	90,508	79,461	90,508	79,461	1
Reinsurers' share	-787	-760	-787	-760	
	89,721	78,701	89,721	78,701	
Investment income	70,275	50,539	71,168	50,333	3, 4
Revaluations on investments	18,543	1,923	18,543	1,923	3, 4
Claims incurred					
Claims paid	-63,615	-61,800	-63,615	-61,800	2
Change in the provision for outstanding claims	-4,941	-6,264	-4,941	-6,264	
Claims incurred in total	-68,556	-68,064	-68,556	-68,064	
Change in the provision for unearned premiums					
Change in the provision for unearned premiums	-63,358	30,655	-63,358	30,655	
Net operating expenses	-10,766	-9,978	-10,766	-9,978	5
Investment charges	-24,316	-60,792	-26,191	-60,204	3, 4
Revaluation adjustments on investments	-1,265	-19,206	-1,265	-19,206	3, 4
Balance on technical account	10,279	3,778	9,297	4,160	
Non-Technical Account					
Other income					
Income from investment services operations	97	14			
Other	2	-	1		
	99	14	1		
Other expenses					
Expenses from investment services operations	-921	-843			
Other	-16	-	-16		
	-937	-843	-16		
Tax on profit on ordinary activities					
Tax for the financial year	-2,144	-1,295	-2,124	-1,295	
Tax from previous periods	-170	5	-190	5	
Deferred tax	-1,806	705			
	-4,120	-585	-2,314	-1,290	
Profit on ordinary activities after tax			6,968	2,870	
Appropriations					
Change in depreciation difference			11	11	
Profit for the financial year	5,321	2,364	6,979	2,881	

Balance Sheet 31 Dec. 2012

EUR 1,000	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011	Notes
ASSETS					
Intangible assets					
Other long-term liabilities	3,647	4,402	3,488	4,200	12
Advance payments	657	96	657	96	
	4,304	4,498	4,144	4,296	
Investments					
Investments in land and buildings					
Land and buildings	108,304	74,038	62,354	54,368	7
Loans to affiliated undertakings			41,102	31,748	
Loans to associated undertakings	1,768	1,541	1,768	1,541	
	110,073	75,579	105,224	87,657	
Investments in affiliated undertakings					
Holdings in subsidiaries			2,500	2,000	
Other investments					
Equities and holdings	323,690	256,372	323,690	256,372	11
Debt securities	174,506	246,466	174,506	246,466	
Mortgage receivables	3,151	16,573	3,151	850	
Other loan receivables	-	2,351	-	2,351	
Deposits	15,908	6,734	15,780	5,950	
	517,255	528,497	517,127	511,990	
Investments in total	627,328	604,076	624,851	601,646	6
Investments covering unit-linked insurances	323,262	270,305	323,262	270,305	10
Debtors					
Arising out of direct insurance operations					
Policyholders	606	726	606	726	
Other debtors	4,570	2,309	4,962	2,485	
	5,176	3,035	5,568	3,212	
Other assets					
Tangible assets					
Machinery and equipment	432	490	422	446	12
Equipment	12	12	12	12	
	444	503	435	458	
Cash at bank and in hand	4,570	6,515	3,893	6,230	
	5,014	7,017	4,328	6,688	
Prepayments and accrued income					
Interest and rents	3,563	4,596	3,551	4,592	
Other	2,188	2,258	2,185	2,258	
	5,751	6,854	5,736	6,850	
	970,835	895,785	967,889	892,997	

EUR 1,000	Group 2012	Group 2011	Parent Company 2012	Parent Company 2011	Notes
LIABILITIES					
Capital and reserves					
Subscribed capital	27,751	27,751	27,751	27,751	13
Premium fund	10,723	10,723	10,723	10,723	
At the disposal of the Board	8	8	8	8	
Profit brought forward	29,991	27,627	37,204	34,323	
Profit for the financial year	5,321	2,364	6,979	2,881	
	73,795	68,474	82,666	75,687	
Appropriations					
Accumulated depreciation difference			68	79	
Technical provisions					
Provision for unearned premiums	409,215	398,166	409,215	398,166	
Claims outstanding	145,157	141,379	145,157	141,379	
	554,372	539,545	554,372	539,545	
Technical provisions for unit-linked insurances					
Technical provisions	325,426	271,955	325,426	271,955	16
Creditors					
Arising out of reinsurance operations	406	360	406	360	
Deferred tax	6,038	4,232			
Other creditors	8,148	9,348	2,395	3,616	14
	14,592	13,940	2,801	3,976	
Accruals and deferred income	2,650	1,872	2,556	1,756	
	970,835	895,785	967,889	892,997	

Parent Company Cash Flow Statement

EUR 1,000	2012	2011
CASH FLOW FROM BUSINESS OPERATIONS		
Profit on ordinary activities	6,968	2,870
before extraordinary items		
Adjustments:		
Change in technical provisions	68,299	-24,391
Value adjustments and revaluations		
on investments	-16,486	43,593
Depreciation according to plan	863	472
Other	-20,549	3,593
Cash flow before change in net working capital	39,094	26,137
Change in net working capital		
Decrease/increase in non-interest-earning receivables	2,674	-117
Increase in non-interest-earning payables	1,029	-223
Cash flow from business operations before financial		
items and taxes	42,797	25,796
Interest paid on other financial expenses		
from operations	-14	2
Taxes	-1,049	-2,063
Cash flow from business operations	41,734	23,735
Cash flow from capital expenditures		
Capital expenditure on investments (excl. funds)	-66,260	-29,766
Capital gain from investments (excl. funds)	22,877	-2,305
Investments and income from the sale of tangible and		
intangible assets and other assets (net)	-688	-835
Cash flow from capital expenditures	-44,071	-32,906
Change in funds	-2,337	-9,170
Funds on 1 Jan.	6,230	15,401
Funds on 31 Dec.	3,893	6,230
	-2,337	-9,170

Accounting Principles

The Financial Statements have been compiled in accordance with the decisions, instructions and regulations of the Finnish Accounting Act, Companies Act, Insurance Companies Act, and the authorities responsible for monitoring insurance companies.

Book value of investments

Buildings and structures are presented in the Balance Sheet at the lower of acquisition cost less the planned depreciation or current value. Real estate shares and land and water areas are presented at the lower of acquisition cost or current value.

Stocks and shares in the nature of investments are presented at the lower of acquisition cost or current value. Stocks and shares in the nature of fixed assets are entered at the lower of acquisition cost or current value, if the value adjustment is considered permanent. The acquisition cost is calculated using the average price.

Debt securities are entered in the Balance Sheet at acquisition cost. The difference between their par value and acquisition cost is accrued as interest income, or interest payable, over the life of the debt security instrument, and entered as an increase or decrease in their acquisition cost. The acquisition cost is calculated using the average price. Changes in value arising from the variation in interest rates are not entered. Value adjustments relating to the issuer's creditworthiness are entered at profit or loss.

Loan receivables and deposits are presented in the Balance Sheet at nominal value or at a permanently lower likely realisable value.

Value adjustments that have been made earlier are readjusted to the value of investments, with an impact on the result, in those cases where the current value exceeds the book value.

Derivative contracts are mainly used for hedging investment portfolios. In accounting terms, however, they are treated as non-hedging instruments. The profits and losses resulting from the termination or expiry of contracts are entered as income or expenses for the financial year. The negative difference between the current value of the derivative contracts treated as non-hedging and a higher book value/contract rate is entered as an expense. Unrealised income is not entered.

Investments covering the unit-linked insurances are valued at their current value.

Book value of assets other than investments

Other long-term expenses which have been capitalised are basic renovation expenses for real estate and planning expenses for IT systems. Those expenses, as well as equipment, are entered in the Balance Sheet at acquisition cost less planned depreciation.

Premium receivables are presented in the Balance Sheet at probable value and other receivables at their par value, or at a probable value permanently lower than this.

Depreciation according to plan

Depreciation according to plan is calculated as a straight-line depreciation on the acquisition cost based on the estimated economic life of the asset. The average estimated depreciation times are as follows:

Computer software	5–7 years
Planning expenses for IT systems	5–7 years
Other long-term expenses	5–10 years
Business and industrial premises and offices	20–50 years
Components in buildings	10–20 years
Vehicles and computer hardware	3–5 years
Office machinery and equipment	7 years

Revaluations on investments

Revaluations and revaluation adjustments on investments in the nature of investment assets and on investments covering unit-linked insurances are entered with an impact on the result.

Current value of investments

The current values of the real estate are defined annually by site, on the basis of calculations made by the company's own experts. Prudent valuation has been used in the Financial Statements. External assessments on the current values of the real estate have been made in cases where there has been a need to verify the correct level of prudent valuation. In such cases, the assessments are carried out by a Finnish company specialising in real estate assessments in addition to its other operations.

Quoted securities and securities that are otherwise subject to public trading are valued at the last bid price in continuous trading on the Balance Sheet date or, if this is not available, at the latest trading price. Unquoted securities are valued at the estimated market price, the undepreciated portion of acquisition cost or a value based on net asset value. Private equity investment funds are valued at acquisition cost or at the estimated current value of the fund reported by the administrative company.

Derivative contracts are valued at their current value on the date of closing the accounts. The possible maximum loss on non-hedging derivatives is deducted from the solvency margin.

Receivables are valued at the lower of par value or probable value.

Foreign currency items

Transactions in foreign currency are entered at the exchange rate of the transaction date. In the annual closing of the accounts, currency-denominated receivables and liabilities and current values of investments have been translated into euro using the European Central Bank's average rate on the date of closing the accounts. Exchange rate gains and losses arising during the financial period and the closing of the accounts are entered as adjustments to the income and expenses concerned or as investment income and charges, if they are related to financing operations.

Staff pension schemes

Pension insurance cover has been arranged for the staff by means of TyEL insurance with the Mutual Insurance Company Pension Fennia. Pension insurance premiums are entered in the profit and loss account on the accrual basis. All company personnel are also included in the defined contribution supplementary insurance policy, which has been taken out with Fennia Life Insurance Company.

Appropriations and treatment of deferred tax

Finnish legislation allows certain optional untaxed reserves and depreciation above plan to be made in the final accounts. In the final accounts of the Group companies, deferred tax is not deducted from appropriations, revaluations transferred to reserves and valuation differences on investments. Revaluations entered as income are taxable income. Deferred tax receivables arising from timing differences between accounting and taxation are not entered in the annual accounts of the Group companies, and the Group companies have no corresponding deferred tax liabilities. Deferred tax liabilities resulting from consolidation measures are entered in the consolidated accounts.

In the consolidated accounts, the depreciation difference is divided into the change in deferred tax and share of profit/loss for the financial year, and deferred tax and share of capital and reserves. The rate of tax used is 24.5 per cent (24.5%).

Technical provisions

The calculation of technical provisions complies with the provisions and instructions of the Insurance Companies Act, the Ministry of Social Affairs and Health and the Financial Supervisory Authority.

No technical rate of interest is applied to unit-linked insurances. For other insurances, the technical provisions are calculated separately for each insurance and the technical rate of interest applied varies as follows:

- In individual life and pension insurance, including capital redemption insurance, the interest rate applied is 4.5 per cent for contracts that have commenced before 1 January 1999 and 3.5 per cent for contracts that have commenced after this, and 2.5 per cent for contracts that have commenced after 1 March 2003. In pension insurance, the interest rate applied is 1 per cent for contracts that have commenced after 9 October 2012. In life insurance, including capital redemption insurance, the interest rate applied is 1.5 per cent for contracts that have commenced after 1 March 2012. In some redemption contracts, the interest rate applied is 2 per cent.

- In insurance for unregistered supplementary group pension, the interest rate is 3.5 per cent. For technical provisions accrued before 1 January 1999 the impact of the change in the interest rate (from 4.25 per cent to 3.5 per cent) has been capitalised under the technical provisions and will be written off through straight-line depreciation over a period of 15 years. The technical rate of interest for group pension insurance beginning after 1 January 2011 is 2 per cent.
- In order to fulfil the 4.5 and 3.5 per cent interest rate requirement for pension and savings insurance policies, the technical provisions have been supplemented both during the reporting year and in previous financial statements. The supplementary provision for the guaranteed interest rate on 31 December 2012 is approximately EUR 34.1 million. By cancelling the supplementary provision for the guaranteed interest rate, the annual calculated interest requirement for these contracts in the near future will be 2.8 per cent.

Deferred acquisition costs have been deducted from the premium reserve in individual pension insurance for contracts that have commenced before 1 January 2010. The amortisation period of this zillmerisation is insurance-specific and at maximum 5 years. The zillmerisation has been planned in such a manner that the future expense loading will suffice to cover related amortisation.

Principle of Fairness

According to Chapter 13, Section 2 of the Insurance Companies Act, a so-called Principle of Fairness must be observed in life insurance with respect to such policies which, according to the insurance contract, entitle to bonuses and rebates granted on the basis of any surplus yielded by the policies. This principle requires that a reasonable part of the surplus has to be returned to these policies as bonuses, in so far as the solvency requirements do not prevent it.

Fennia Life aims at giving a long-term gross return on policyholders' with-profit insurance savings that is at minimum based on the risk-free interest rate. The duration of the insurance and surrender right are taken into account in distributing bonuses. The yield to be distributed to clients is determined based on the company's long-term net income on investments.

The total interest rate consists of the technical interest rate and additional interest rate on the insurance contract in question. The level of technical interest for the contract is taken into account in the amount of additional interest to be paid on the insurance. When the company's net income from investments is low, the level of distributed bonuses is reduced. Thus the total interest rate of insurance policies with lower technical interest rates may remain below the highest technical interest rate. When the net income from investments is high, insurance policies with lower technical interest rates may be credited a higher total interest rate than insurance policies with higher technical interest rates.

The aim is to retain continuity in the level of bonuses paid, as a result of which the surplus from returns on investments can be accrued as distributable bonuses for the group of insured in question for the coming years.

The company's aim is to achieve competitive bonuses in comparison with other insurance companies and other low-risk forms of investment.

The level of bonuses is limited by the owners' requirements for return on capital, as well as the company's solvency target. The solvency goal is set in such a way that all the solvency limits set by legislation are exceeded and so that the company is able to take risks in its investment operations to the extent that the investment plan requires in order to achieve the annual targeted return.

Fennia Life's Board of Directors confirms the amount of additional interest rate on a quarterly basis, in advance. The amount of future bonuses can, however, be changed during the course of a quarter if necessitated by the company's solvency or the general market situation.

The Principle of Fairness can be applied in risk life insurances, on the part of death cover, to specified insurance groups in the form of increased compensation.

Bonus targets are not binding and are not part of the insurance contract between the company and the policyholder. The bonus targets are in force until further notice and the company reserves the right to alter the bonus targets.

Implementing the Principle of Fairness in 2012

Fennia Life's bonuses in 2012 correspond to the targets set for the company's principle of fairness. The yield to be distributed to insurance policies is determined based on the company's long-term net income on investments. The aim is to retain continuity in the level of bonuses paid, as a result of which the surplus from returns on investments can be accrued as distributable bonuses for the group of insured in question for the coming years.

The company's return on investment in 2012 was good. Due to the low interest rate level and future Solvency II regulations, EUR 13 million was transferred from the investment profits to the supplementary provision for the guaranteed interest rate in the Financial Statements to cover the costs of the company's interest rate promises in the coming years. The provision for future bonuses was not increased in the Financial Statements. Some of the bonuses granted in 2012 were financed from the provision for bonuses reserved in previous years. The supplementary provision for the guaranteed interest rate was decreased as planned.

The risk-free interest rate has remained low for both short-term and long-term government bonds since 2009. The total interest credited by Fennia Life has clearly exceeded the risk-free interest rate of the corresponding investment period from 2009 to 2012. The duration of the insurance and surrender right have been taken into account in distributing bonuses. For that reason, the total interest credited on pension insurance has been slightly higher than the interest credited on savings insurance. The table below indicates the total interest credited by Fennia Life in 2012:

TOTAL ANNUAL INTEREST ON WITH-PROFIT POLICIES IN 2012

Technical interest rate	Individual savings insurance	Individual pensions-insurance	Group pension insurance	Capital redemprtion policy
4.50%	4.50%	4.50%		
3.50%	3.50%	3.55%	3.55%	3.50%
2.50%	3.10%	3.50%		2.90%
2.00%			3.50%	2.90%
1.50%	(since 1 March) 3.08%			(since 1 March) 2.88%
1.00%		(since 9 Oct.) 3.40%		2.90%

Consolidated accounts

Fennia Life's consolidated accounts include all the subsidiaries in which the Parent Company either directly or indirectly holds more than half of the voting rights. Fennia Asset Management Ltd (100 per cent ownership) has been consolidated to the Group. The other sixteen (13 in 2011) subsidiaries consolidated to the Group are real-estate companies.

The consolidated accounts have been drawn up as combinations of the profit and loss accounts, balance sheets and notes of the Parent Company and the subsidiaries. Amounts due to or from Group companies, internal gains and losses, profit distribution and mutual share ownership have been eliminated. Mutual share ownership is eliminated using the acquisition method. The consolidation difference is entered under the fixed asset items concerned and depreciated according to their depreciation plan. The unallocated part of goodwill on consolidation has been written off.

Group Companies 31 Dec. 2012

New subsidiaries included in Fennia Life's consolidated financial statement

Kiinteistö Oy Uudenmaankatu 24
Kiinteistö Oy Biolinja 27
Kiinteistö Oy Espoon Portti 1-5

The following subsidiaries are included in the consolidated financial statements

Fennia Varainhoito Oy
Kiinteistö Oy Kalevankatu 9
Kiinteistö Oy Teohypo
Kiinteistö Oy Espoon Niittyrinne 1
Kiinteistö Oy Kaakkurin Liikekeskus
Kiinteistö Oy Vaajakosken Varaslahdentie 6
Kiinteistö Oy Sellukatu 5
Kiinteistö Oy Vasaraperän Liikekeskus
Kiinteistö Oy Koivuhaanportti 1-5
Kiinteistö Oy Mikkelin Hallituskatu 1
Kiinteistö Oy Vasaramestari
Kiinteistö Oy Konalan Ristipellontie 25
Asunto Oy Jyväskylän Jontikka 2
Asunto Oy Tampereen Vuoreksen Puistokatu 76

Notes to the Profit and Loss Accounts and Balance Sheet

EUR 1,000	2012	2011
1. PREMIUMS WRITTEN		
Direct insurance		
Finland	90,481	79,444
Reinsurance	27	17
Gross premiums written before reinsurers' share	90,508	79,461
Items deducted from premiums written		
Credit loss on outstanding premiums	15	12
Direct insurance premiums written		
Life insurance		
Unit-linked individual life insurance	22,254	23,703
Other individual life insurance	12,817	10,203
Unit-linked capital redemption policy	11,356	4,773
Other capital redemption policy	2,303	1,278
Employees' group life insurance	6,858	5,358
Other group life insurance	6,021	3,678
	61,608	48,993
Pension insurance		
Unit-linked individual pension insurance	8,513	5,973
Other individual pension insurance	7,202	9,340
Unit-linked group pension insurance	2,959	3,392
Other group pension insurance	10,200	11,746
	28,874	30,451
	90,481	79,444
Regular premiums	47,919	47,442
Single premiums	42,562	32,002
	90,481	79,444
Premiums from with-profit policies	45,399	41,603
Premiums from unit-linked insurance	45,082	37,841
	90,481	79,444

EUR 1,000	2012	2011
2. CLAIMS PAID		
Direct insurance		
Life insurance	31,157	29,467
Pension insurance	32,450	32,333
	63,607	61,800
Reinsurance	8	-
Claims paid in total	63 615	61,800
Of which:		
Surrenders	15,426	15,135
Repayment of benefits	8,276	4,814
Other	39,906	41,851
	63,607	61,800
Share of unit-linked insurances of claims paid	19,800	19,178
Life insurance: bonuses and rebates		
Impact of bonuses and rebates attached to life insurance policies on the balance on technical account	1,448	855
Change in provisions for future bonuses for the financial year	-242	-4,313

In the financial accounts, EUR 13,000,000 was transferred from the result on 31 December 2012 to cover the cost of the technical rate of interest on individual and group pension insurance. Of the bonuses granted in 2012, EUR 242,032 was financed from the provision for bonuses. Of the 4.5 per cent technical rate of interest on individual pension and savings insurance, 1.3 per cent was financed from the supplementary provision for the guaranteed interest rate, in the amount of EUR 1,933,536. In addition to this, of the 3.5 per cent technical rate of interest on both group and individual pension insurance and savings insurance, 0.3 per cent was financed from the supplementary provision for the guaranteed interest rate, in the amount of EUR 654,947. The bonuses credited to insurances during 2012 totalled EUR 1,689,726, which met the bonus objectives for the financial year.

The bonuses credited to insurances during 2011 totalled 2,295,650, which met the bonus objectives for the financial year.
Provisions for bonuses accumulated during previous years were decreased by EUR 1,440,819. A transfer of EUR 2,000,000 was made during the financial year to provisions for bonuses.

EUR 1,000	2012	2011
3. NET INVESTMENT INCOME		
Investment income		
Income from investments in land and buildings		
Interest income		
From affiliated undertakings	1,007	273
From other undertakings	132	114
	1,140	387
Other income	9,563	7,572
	10,702	7,959
Income from other investments		
Dividend income	8,329	6,327
Interest income	9,167	10,498
Other income	2,323	1,566
	19,818	18,392
Total	30,520	26,351
Value readjustments	11,160	1,131
Gains on realisation of investments	29,488	22,850
Total	71,168	50,333
Investment charges		
Charges arising from investments in land and buildings		
To affiliated undertakings	-4,506	-2,986
To other undertakings	-1,194	-2,160
	-5,699	-5,146
Charges arising from other investments	-1,915	-2,463
Interest and other expenses on liabilities	-14	2
Total	-7,628	- 7,607
Value adjustments and depreciations		
Value adjustments on investments	-11,952	-27,441
Losses on realisation of investments	-6,611	-25,155
Total	-26,191	-60,204
Net investment income before revaluations and revaluation adjustments	44,977	-9,871
Revaluations on investments	18,543	1,923
Revaluation adjustments on investments	-1,265	-19,206
	17,278	-17,283
Net investment income in the Profit and Loss Account	62,255	-27,154

EUR 1,000	2012	2011
4. SHARE OF UNIT-LINKED INSURANCE OF NET INVESTMENT INCOME ON THE PROFIT AND LOSS ACCOUNT		
Investment income	13,719	5,592
Investment charges	-4,064	-13,652
Net investment income before revaluations and revaluation adjustments and value adjustments and readjustments	9,655	-8,059
Revaluations on investments	18,543	1,923
Revaluation adjustments on investments	-1,265	-19,206
Value adjustments on investments	-4,687	-20,341
Value readjustments	6,481	73
Net investment income in the Profit and Loss Account	28,727	-45,610

EUR 1,000	2012	2011
5. OPERATING EXPENSES		
Operating expenses in the Profit and Loss Account		
Policy acquisition costs		
Direct insurance commissions	889	649
Commissions on reinsurance assumed and profit sharing	2	-
Other policy acquisition costs	3,187	2,986
Total policy acquisition costs	4,078	3,635
Policy management expenses	4,931	4,739
Administrative expenses	1,896	1,638
Commissions on reinsurance ceded	-140	-34
Total	10,766	9,978
Total operating expenses by activity		
Claims paid	321	334
Net operating expenses	10,766	9,978
Investment charges	1,184	1,177
Total	12,271	11,489
Depreciation according to plan by activity		
Claims paid	23	16
Net operating expenses	744	364
Investment charges	95	92
Total	863	472
Staff expenses, personnel and executives		
Staff expenses		
Salaries and commissions	2,933	2,802
Pension expenses	693	608
Other social expenses	187	182
Total	3,812	3,592
Executives' salaries and commissions		
Board of Directors and Managing Director	351	350
The age of retirement of the Managing Director is defined according to TyEL.		
Average number of personnel during the financial year		
Office personnel	32	28
Sales personnel	16	19
	48	47
Auditors' commissions		
Audit	23	20
Tax consulting	19	10
Other commissions	3	
	45	31

EUR 1,000	Investments, 31 Dec. 2012 Remaining acquisition	Book value cost	Current value	Investments, 31 Dec. 2011 Remaining acquisition	Book value cost	Current value
6. CURRENT VALUE AND VALUATION DIFFERENCE ON INVESTMENTS						
Investments in land and buildings						
Real estate shares in affiliated undertakings	53,101	53,101	58,950	45,115	45,115	48,758
Real estate shares in associated undertakings	2	2	2	2	2	2
Other real estate shares	9,251	9,251	9,251	9,251	9,251	9,251
Investment loans to affiliated undertakings	41,102	41,102	41,102	31,748	31,748	31,748
Investment loans to associated undertakings	1,768	1,768	1,768	1,541	1,541	1,541
Investments in affiliated undertakings						
Shares and participations	2,500	2,500	2,500	2,000	2,000	2,000
Other investments						
Equities and holdings	323,690	323,690	360,457	256,372	256,372	275,698
Debt securities	174,506	174,506	183,273	246,466	246,466	250,572
Mortgage receivables	3,151	3,151	3,151	850	850	850
Other loan receivables	-	-	-	2,351	2,351	2,351
Deposits	15,780	15,780	15,780	5,950	5,950	5,950
	624,851	624,851	676,233	601,646	601,646	628,721
The remaining acquisition cost of debt securities omprises the difference between the amount repayable at maturity and purchase price, which has been released to interest income (+) or charged to interest income (-)	-5,740			-3,071		
Valuation difference (difference between current value and book value)			51,382			27,074

EUR 1,000	Land and buildings and real estate shares

7. CHANGES IN INVESTMENTS IN LAND AND BUILDINGS

Acquisition cost, 1 Jan.	55,619
Increase	12,201
Acquisition cost, 31 Dec.	67,820
Value adjustments, 1 Jan.	-1,251
Reversed impairment	128
Increase	-4,343
Value adjustments, 31 Dec.	-5,466
Book value, 31 Dec.	62,354

8. INVESTMENTS IN AFFILIATED AND ASSOCIATED UNDERTAKINGS

Acquisition cost, 1 Jan.	2,000
Increase	500
Acquisition cost, 31 Dec.	2,500
Book value, 31 Dec.	2,500

9. DEBTORS

Other debtors	
Affiliated undertakings	403

10. INVESTMENTS COVERING UNIT-LINKED INSURANCES, 31 DEC. 2012

	2012		2011	
EUR 1,000	**Original acquisition cost**	**Current value**	**Original acquisition cost**	**Current value**
Equities and holdings	273,773	283,860	246,929	238,698
Debt securities	28,335	27,896	21,785	20,442
Deposits with credit institutions	-	-	3,954	3,960
Cash at bank and in hand	11,505	11,505	7,205	7,205
Total	313,614	323,262	279,873	270,305
Investments covering unit-linked insurances corresponding to technical provisions	313,614	323,262	279,873	270,305
Cash at bank and in hand, and other debtors include net insurance premiums that have not yet been invested		2,423		1,650

EUR 1,000	Holding %	Book value 31 Dec. 2012	Current value 31 Dec. 2012
11. SHARES IN OTHER COMPANIES AND OTHER INVESTMENTS			
Domestic shares			
Fortum Oyj	0.0117	1,472	1,472
Kemira Oyj	0.0463	748	847
Kesko Oyj	0.0523	790	865
Metso Oyj	0.0178	830	859
Nokia Oyj	0.0053	585	585
Sampo Oyj	0.0046	574	631
Amplus Holding Oy	17.0756	701	730
Holiday Club Resorts Oy	2.5765	1,451	1,462
Probus Holding Oy	8.2941	5,583	8,657
Uudenmaan Pääomarahasto Oy	13.2193	1,929	1,929
Other		4,826	5,096
		19,488	23,132
Foreign shares			
Intel Corporation		932	938
Prosafe SE		503	513
Royal Dutch Shell Plc		508	657
Sanofi-Aventis		549	712
StatoilHydro ASA		500	520
Volkswagen Ag		534	652
K III Sweden AB		1,299	1,313
Other		2,609	2,729
		7,436	8,034
Unit trusts			
Aktia America B		923	1,082
Aktia Em Mrkt Local Currency Bond+ D		2,998	2,998
Aktia Em Mrkt Local Currency T-Bill+ D		2,979	2,979
Aktia Global Government Bond+		3,002	3,082
Allianz Global Investors - Euro High Yield Bond IT		1,640	1,826
Aviva Investors - Global Short Duration High Yield		6,000	6,198
Aviva Investors SICAV - Global High Yield Bond I		1,289	1,475
BlackRock Global Funds - European Value Fund		887	1,079
Bluebay Emerging Markets Corporate Bond Fund		4,401	5,309
BNP Paribas L1 - Bond World Emerging Local		5,000	5,184
Brummer & Partners Lynx Fund		1,002	1,012
Brummer & Partners Nektar Fund		1,004	1,033
Danske Invest Euro High Yield K		4,000	4,038
DNB OBX ETF		1,513	1,679
eQ Emerging Dividend Units		3,128	3,589
eQ Emerging Markets Local Currency Credit		1,000	1,011
Evli Aktieindexfond Sverige		3,410	3,490
Evli Corporate Bond B		12,824	15,294
Evli Emerging Markets Equity B		2,638	2,638
Evli Euro Liquidity B		7,500	7,501
Evli Europe B		2,489	2,954
Evli European High Yield B		12,621	15,606
Evli European Investment Grade B		13,078	14,961
Evli North America B		3,493	3,654
Evli Ruble Debt B		1,417	1,482

EUR 1,000	Book value 31 Dec. 2012	Current value 31 Dec. 2012
Evli Russia B	613	617
Evli Short Corporate Bond B	9,118	10,351
Evli Swedish Small Cap B	1,197	1,259
Fidelity Active Strategy - Emerging Markets Fund	2,004	2,416
Fidelity Active Strategy - Europe Fund	1,008	1,334
FIM BRIC+	611	632
FIM Euro	2,587	2,815
FIM Euro High Yield	5,770	6,040
FIM Kehittyvä Korko	1,787	1,945
FIM Likvidi	3,027	3,038
Fondita Nordic Micro Cap B	1,509	1,890
Fourton Odysseus	1,015	1,436
Goldman Sachs Global Emerging Markets Debt Loc	7,031	7,881
Goldman Sachs Global High Yield - Euro Hedged Cl	12,497	12,873
Handelsbanken Europe Selective A I	1,054	1,213
Handelsbanken Nordic Selective A I	1,030	1,125
iShares FTSE Xinhua China 25 Index Fund	3,599	3,832
iShares MSCI Emerging Markets	8,334	8,508
iShares Russell 2000 Value Fund ETF	1,058	1,203
iShares S&P 500 Index	4,133	4,133
iShares STOXX Europe 600 ETF	9,690	9,944
iShares STOXX Europe 600 Health Care ETF	767	833
JPM US Select 130/30 A acc-USD	2,046	2,879
JPM US Select Equity A USD Acc	1,191	1,561
Limited Life Credit Opportunity AX EUR	6,000	6,363
Market Vectors Agribusiness ETF	1,400	1,400
Morgan Stanley US Advantage A Acc EUR	2,154	2,720
Muzinich Funds - Americayield Fund Hedged Acc	986	1,255
Muzinich Funds - Europeyield Fund	12,000	12,270
Muzinich Short Duration High Yield Fund I	8,550	8,888
Odin Finland II	1,032	1,032
Pictet Funds Global Emerging Debt HI Acc EUR	7,654	11,534
Schroder ISF US Small & Mid-Cap Equity	1,271	1,787
Seligson & Co Kehittyvät markkinat I A	879	879
Seligson & Co OMX Helsinki 25-indeksiosuus ETF	863	885
Seligson & Co Rahamarkkinarahasto AAA	2,024	2,024
SPYDR Standard & Poors 500 Index Ser.1 Standard	1,906	2,120
Sydinvest Emerging Markets Bonds	4,111	8,104
Sydinvest Engros Emerg. Mkts Local Currency Bonds	5,877	6,738
Taaleritehdas Lyydian Leijona Osake A (Kasvu)	520	686
Taaleritehdas Rupla Osake A (Kasvu)	1,645	1,645
Vanguard MSCI Emerging Markets ETF	2,705	2,908
WestLB Mellon Compass Fund - Euro Corporate Bond	3,845	4,243
Other	1,442	1,550
	249,776	279,940

EUR 1,000	Book value 31 Dec. 2012	Current value 31 Dec. 2012
Capital trusts		
Duke Street Capital VI LP	1,112	1,112
MB Equity Fund III Ky	492	685
MB Equity Fund IV Ky	1,076	1,076
The Triton Fund II L.P.	838	838
The Triton Fund III L.P.	3,800	3,800
Permira Europe IV LP2	965	1,004
Teknoventure Rahasto III Ky	1,425	1,906
Selected Private Equity Funds I Ky	3,058	3,058
Partners Group European Buyout	3,432	3,794
Partners Group European Mezzanine	2,217	2,217
Selected Mezzanine Funds I Ky	3,050	3,225
Euro Choice IV GB Limited	2,133	2,133
Aberdeen Indirect Property Partners	1,149	1,149
Sponda Fund I Ky	850	850
Kauppakeskuskiint. FEA Ky	18,711	18,711
Other	2,682	3,793
	46,990	49,351

EUR 1,000	Intangible rights and other long-term expenses	Advance payments	Equipment	Total
12. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS, PARENT COMPANY				
Acquisition cost, 1 Jan. 2012	5,616	96	727	6,439
Fully depreciated in the previous financial year	-282		-17	-299
Increase		561	181	742
Decrease	-		-120	-120
Acquisition cost, 31 Dec. 2012	5,335	657	771	6,762
Accumulated depreciation, 1 Jan. 2012	-1,416		-282	-1,698
Fully depreciated in the previous financial year	282		17	299
Accumulated depreciation related to decreases and transfers	-		66	66
Depreciation for the financial year	-712		-150	-863
Accumulated depreciation, 31 Dec. 2012	-1,847		-349	-2,195
Book value, 31 Dec. 2012	3,488	657	422	4,567

EUR 1,000	2012
13. CAPITAL AND RESERVES	
Restricted	
Subscribed capital, 1 Jan. / 31 Dec.	27,751
Premium Fund, 1 Jan. / 31 Dec.	10,723
Restricted in total	38,474
Non-restricted	
At the disposal of the Board, 1 Jan. / 31 Dec.	8
Profit brought forward, 1 Jan. 2012	34,323
Profit for the financial year 2011	2,881
Profit for the financial year	37,204
Profit for the financial year	6,979
Non-restricted in total	44,191
Capital and reserves in total	82,666
Distributable profit, 31 Dec. 2012	
Profit for the financial year	6,979
At the disposal of the Board	8
Profit brought forward	37,204
Distributable profit in total	44,191

EUR 1,000	2012	2011
14. CREDITORS		
Other creditors		
Affiliated undertakings	743	264
15. PROVISION FOR UNEARNED PREMIUMS		
Deferred acquisition costs have been deducted from the premium reserve (zillmerisation)		
Pension insurance	93	231
	93	231
16. TECHNICAL PROVISIONS FOR UNIT-LINKED INSURANCES		
Provision for unearned premiums	322,797	270,488
Claims outstanding	2,630	1,467
	325,426	271,955

EUR 1,000	2012	2011
17. GUARANTEE AND LIABILITY COMMITMENTS		
Value-added tax liabilities		
As regards group registering for VAT taxation, the company is responsible for the value-added tax payable by the group jointly with the other members of the value-added tax liability group of Varma Mutual Pension Insurance Company		
Affiliated undertakings	196	-544
Other undertakings	5,746	6 ,025
Investment commitments		
Commitment to invest in equity funds	24,312	27,225

Loans to related parties and related party transactions

The company has no loans, liabilities or contingent liabilities to related parties.

The company has no related party transactions conducted according to other than standard business practices.

18. KEY FIGURES PERTAINING TO SOLVENCY

	2012	2011
Solvency margin		
Capital and reserves after proposed profit distribution	82,666	75,687
Optional reserves and accumulated depreciation difference	68	79
Valuation difference between current value and Balance Sheet book value of assets	51,382	27,074
Intangible assets not entered as expenses	-4,144	-4,296
Other items	-	-226
Solvency margin in total	129,971	98,319
Equalisation provision for years with large numbers of losses included in technical provisions	7,254	6,300
Solvency capital	137,226	104,619
Solvency margin required under the Finnish Insurance Companies Act, Chapter 11, Section 12	32,326	30,647
Solvency capital to technical provisions less equalisation provision and 75% of provisions relating to unit-linked insurances	21.8 %	17.4 %

19. NOTES CONCERNING THE GROUP

Fennia Life Insurance Company's parent company is Fennia Mutual Insurance Company. The domicile of the company is Helsinki.

Copies of Fennia's Consolidated Financial Statements are available at the parent company's headquarters, Televisiokatu 1, Helsinki

Key Figures

EUR 1,000	2012	2011	2010	2009	2008
ANALYSIS OF RESULTS					
Premiums written	89,721	78,701	59,637	69,563	54,207
Investment income (net), revaluations and revaluation adjustments on investments	63,237	-27,537	80,685	90,592	-84,439
Claims paid	-63,615	-61,800	-51,254	-53,281	-75,966
Change in technical provisions before bonuses and rebates and change in equalisation provision	-65,897	23,121	-61,799	-84,416	87,123
Net operating expenses	-10,766	-9,978	-8,405	-7,533	-6,801
Technical underwriting result before bonuses and rebates and change in equalisation provision	12,680	2,508	18,865	14,925	-25,875
Other income (net)	-838	-828	0	0	-62
Operating profit	11,842	1,679	18,865	14,925	-25,937
Change in equalisation provision	-954	-747	-544	-290	-686
Bonuses and rebates	-1,448	2,017	-3,846	-3,579	-214
Profit before untaxed reserves and tax	9,440	2,949	14,474	11,056	-26,837
Taxes	-4,120	-585	-359	-627	275
Group's profit for the financial year	5,321	2,364	14,115	10,429	-26,562
Gross premiums written (EUR 1,000)	90,508	79,461	60,165	70,010	54,719
Expense ratio of expense loading	119.9%	116.0%	108.1%	101.9%	91.0%
Expense ratio of balance sheet total	1.4%	1.3%	1.2%	1.2%	0.9%
Solvency margin (EUR 1,000)	129,971	98,319	106,018	87,816	47,765
Minimum solvency margin (EUR 1,000)	32,326	30,647	30,000	29,107	28,090
Equalisation provision (EUR 1,000)	7,254	6,300	5,553	5,009	4,719
Solvency capital (EUR 1,000)	137,226	104,619	111,571	92,824	52,484
Solvency ratio, %	21.8%	17.4%	18.5%	16.0%	9.4%
Total result	35,991	-8,736	24,079	42,932	-38,333
Return on assets	9.5%	1.9%	7.6%	11.0%	-3.5%

The key figures have been calculated on the basis of the Parent Company's figures, excluding the analysis results.

EUR 1,000	2012 EUR	2012 %	2011 EUR	2011 %	2010 EUR	2010 %	2009 EUR	2009 %	2008 EUR	2008 %
INVESTMENT PORTFOLIO AT CURRENT VALUES										
Loan receivables [1)]	3,151	0.5	3,201	0.5						
Bonds [1), 2)]	329,047	48.4	320,125	50.5	335,085	53.8	395,394	65.8	343,210	59.9
* includes fixed-income funds	172,391	25.4	122,616	19.4	107,977	17.3	99,651	16.6	58,735	10.3
Other money market investments and deposits [1), 2), 3)]	68,474	10.1	76,245	12.0	48,480	7.8	25,104	4.2	82,311	14.4
* includes fixed-income funds	22,913	3.4	11,276	1.8	12,761	2.0	12,417	2.1	19,209	3.4
Equities and holdings	144,084	21.2	124,737	19.7	133,473	21.4	87,733	14.6	47,032	8.2
Investments in land and buildings [4)]	132,540	19.5	108,667	17.2	93,184	15.0	77,990	13.0	71,154	12.4
* includes unit trusts and UCITS	21,467	3.2	17,197	2.7	17,066	2.7	16,387	2.7	16,630	2.9
Other investments	2,091	0.3	316	0	12,519	2.0	15,051	2.5	29,057	5.1
Modified duration of the bond portfolio	**679,387**	**100.0**	**633,290**	**100.0**	**622,741**	**100.0**	**601,272**	**100.0**	**572,764**	**100.0**
Modified duration of the bond portfolio	**3.45**		**3.70**		**2.86**		**3.00**		**3.41**	

1) Includes accrued interests.

2) Of fixed-income funds, long-term funds are included in bonds and short-term funds are included in other money market investments.

3) Includes deposits included in Investments in the Balance Sheet.

4) Includes investments in those unit trusts and comparable UCITS that invest in real estate and real estate undertakings.

EUR 1,000	2012 EUR	2011 EUR	2010 EUR	2009 EUR	2008 EUR
NET INVESTMENT INCOME					
Direct net income	**18,649**	**15,505**	**19,334**	**18,754**	**27,532**
Loan receivables	126	54	0		0
Bonds *)	8,208	9,406	13,318	13,451	15,798
Other money market investments and deposits	925	977	148	1 740	2 920
Equities and holdings *)	4,660	3,003	2,231	514	6,963
Investments in land and buildings	6,300	3,731	4,582	4,083	3,102
Other investments *)	61	61	62	72	-283
Sundry income, charges and operating expenses	-1,630	-1,727	-1,006	-1,105	-970
Changes in value in the accounts[1)]	**14,880**	**2,951**	**19,178**	**13,559**	**-41,608**
Equities and holdings *)	6,591	-6,136	6,727	2,081	-18,156
Bonds *)	10,501	4,682	12,124	14,971	-17,819
Investments in land and buildings	-2,135	3,745	921	-5,136	-4,123
Other investments *)	-78	661	-594	1,642	-1,509
Net investment income at book value	**33,528**	**18,456**	**38,512**	**32,313**	**-14,076**
Change in valuation differences[2)]	**24,308**	**-11,626**	**4,562**	**27,468**	**-12,749**
Equities and holdings	4,945	-7,688	9,743	4,372	-9,845
Bonds	17,157	-2,847	-4,801	22,579	710
Investments in land and buildings	2,206	-98	526	934	1,015
Other investments	0	-994	-906	-417	-4,629
Net investment income at current values	**57836**	**6,830**	**43,074**	**59,781**	**-26,825**
Share of net investment income accounted for by derivatives	-707	-953	-3,546	-1,897	4,030

1) Gains and losses on realisation of investments and other changes in value in the accounts

2) Off-balance sheet changes in value

EUR 1,000	Net investment income at current value[1)] EUR 2012	Invested capital[2)] EUR 2012	Yield - % on invested capital 2012	2011	2010	2009	2008
NET INVESTMENT INCOME ON INVESTED CAPITAL 1 JAN. 2012–31 DEC. 2012							
Bonds[3)]	35,865	303,237	11.8	3.4	5.5	15.3	-0.4
*of which fixed-income funds	18,996	132,921	14.3	1.8	9.9	37.7	-21.0
Other money market investments and deposits[3)]	925	78,772	1.2	1.3	1.7	2.8	3.9
*of which fixed-income funds	1,344	12,420	10.8	-0.3	2.2	4.4	-1.0
Equities and holdings	16,196	123,352	13.1	-8.3	18.6	13.7	-25.1
Real estate[4)]	6,497	117,937	5.5	8.7	7.4	-0.2	0.0
*of which unit trusts and UCITS	3,222	16,974	19.0	3.7	7.8	-15.9	-27.5
Other investments	-17	401	-4.2	-3.4	-10.1	4.2	-16.5
Investments in total	**59,466**	**623,699**	**9.5**	**1.4**	**7.4**	**10.9**	**-4.2**
Sundry income, charges and operating expenses	-1,630						
Net investment income at current value	**57,836**	**623,699**	**9.3**	**1.1**	**7.2**	**10.7**	**-4.4**

1) Net investment income at current value = Changes in the market values between the end and beginning of the review period - cash flows during the period. Cash flow is the difference between purchases/costs and sales/income.

2) Invested capital = Market value at the beginning of the review period + daily / monthly time-weighted cash flows

3) Includes income from fixed-income funds recorded in the investments in question.

4) Includes income from unit trusts and UCITS recorded in investments in real estate.

Calculation Methods for the Key Figures

Premiums written = premiums written before reinsurers' share

Expense ratio (% of expense loading) =
+ operating expenses before change in deferred acquisition costs
+ claims settlement expenses

expense loading

Expense ratio (% of Balance Sheet total) =
+ total operating expenses

opening Balance Sheet total

Total result = operating profit (loss) +/- change in off-balance sheet valuation differences

Solvency margin see calculation in the Notes

Solvency capital = solvency margin + equalisation provision + minority interest

Solvency ratio (%) =
solvency capital

+ technical provisions
- equalisation provision
- 75% of technical provisions for unit-linked insurances

Technical provisions are calculated after reinsurers' share.

Return on assets at current values (%) =
+/- operating profit or loss
+ financial expenses
+ unwinding of discount
+/- change in valuation differences on investments

+ Balance Sheet total
- technical provisions for unit-linked insurances
+/- valuation differences on investments

The divisor of the key figure is calculated as an average of values on the Balance Sheet for the current and previous financial period.

'Unwinding of discount' means the technical interest credited to insurances during the year plus/minus any changes in the supplementary liability of the interest.

Net investment income on invested capital at current values (%)
Net investment income at current values in relation to invested capital is calculated by type of investment and for the total amount of investments with reference to cash flows during the period.

Average number of employees = Average number of employees at the end of each calendar month.

Risks and Risk and Solvency Management

Risk and solvency management in general

Fennia Life Insurance Company (hereinafter Fennia Life) is jointly owned by Fennia Mutual Insurance Company (hereinafter Fennia) with a 60% holding and Mutual Insurance Company Pension Fennia with a 40% holding. Established in 2011, Fennia Asset Management Ltd (hereinafter Fennia Asset Management) is a wholly owned subsidiary of Fennia Life. Fennia Life belongs to the Fennia Group. The risk and solvency management framework of Fennia Life is described in the policy documents approved by the Group companies' Boards of Directors. The most central of these documents is the risk and solvency management policy which lays down the general principles for managing both risks and solvency in the Group.

In the Fennia Group, risk management means co-ordinated strategies, processes, principles and measures to identify, measure, monitor, manage and report risks faced by the Group and the Group companies. Solvency management, on the other hand, means strategies, processes, principles and measures to steer and determine the Group's and the Group companies' risk-bearing capacity, risk appetite, risk tolerance and restrictions of their essential risks.

Organisation of risk and solvency management

Fennia's Board of Directors, in its capacity as the Board of Directors of the Group's parent company, is the supreme decision-making body within the Group and bears the responsibility for risk and solvency management and for its integration into the Group's reliable governance system. It is the responsibility of Fennia's Board of Directors to ensure that the special characteristics of the subsidiaries belonging to the Group and the intra-Group connections (including internal transactions, double capital, transferability of capital and use of capital in general) are taken into consideration appropriately.

The Board of Directors of Fennia Life has the primary responsibility to see to it that the company consistently abides by the Group's risk and solvency management policy. It is responsible for ensuring that the company has a governance system in place which is adequately organised with regard to the quality, scope and complexity of the operations, including internal control and a risk management system.

The Board of Directors of Fennia Asset Management is responsible for ensuring that the company abides by the Fennia Group's risk management policy to the extent where the company's special characteristics do not require deviations from it.

Other subsidiaries abide by the Fennia Group's risk and solvency management policy where applicable.

A risk management committee has been set up for the Group's insurance companies to prepare, steer and co-ordinate tasks related to risk and solvency management and to communicate information. The primary task of this risk management committee is to support Fennia's and Fennia Life's Managing Directors in issues related to risk and solvency management. The committee is chaired by Fennia's Managing Director, and Fennia Life's Managing Director is a member the committee.

A separate risk management committee has been set up for Fennia Asset Management. It is chaired by the Managing Director of Fennia Asset Management.

The steering of the risk management system is based on a three-defence-line model.

1. The first defence line has the primary responsibility for daily risk management and reporting in accordance with the agreed policy.

2. The second defence line is the owner of the risk management framework and is responsible for, among other things, the interpretation, development and planning of and reporting on risk and solvency management, and supports, monitors and assesses the implementation of the risk and solvency management processes in the business areas and support functions (first defence line).

3. The third defence line is in charge of ensuring the effectiveness and efficiency of internal control and risk and solvency management.

In the three-defence-line model, responsibility for risk and solvency management is allocated as follows between the various operators:

- Managing Director
  Assisted by Management, the Managing Director bears the overall responsibility for the appropriate preparation and implementation of risk and solvency management in accordance with the Board of Directors' decisions.

- Business areas and support functions
  Each business area and support function is primarily responsible for daily risk management and reporting in accordance with the agreed policy, monitors the overall risk profile of their own area (supported by the second defence line) and ensures that operations in their area comply with the Group's binding risk and solvency management documentation.

- Actuarial function
  The responsible actuary is in charge of the Actuarial function and sees to it that the actuarial methods applied in pricing and in calculating technical provisions are appropriate. The responsible actuary also determines the level of technical provisions. The Actuarial function has a role as an operator of both the first and second defence lines. The Actuarial function participates in the efficient implementation of the risk management system, in the creation of risk management methods in particular, but also in the implementation of the company's own risk and solvency assessment.

- Risk Management function
  The Risk Management function has the primary responsibility for the tasks of the second defence line. The Risk Management function and its processes have been integrated into the Fennia Group's organisation to ensure their independence from the operational activities, which means that the function is free from influences that might compromise the objective, equal and independent performance of its tasks.

The following five co-ordination teams have been set up under the Risk Management function, through which it carries out part of its tasks:

- Co-ordination team for insurance risks;
- Co-ordination team for financial market risks;
- Co-ordination team for operational risks;
- Co-ordination team for risks inherent in quantitative methods; and
- Co-ordination team for risks inherent in the business environment.

The main tasks of these co-ordination teams include the processing of the strategies, processes and reporting procedures that are needed to continually identify, measure, monitor, manage and report risks and their interrelations.

- Compliance function
  The Compliance function, which belongs to the second defence line, is responsible for ensuring that operations comply with applicable laws, decrees and administrative regulations, financial sector self-regulation and the Fennia Group's internal guidelines, and that customer relationships are managed according to the concluded insurance and other contracts and appropriate procedures. The function also has the task of promoting compliance through proactive legal advice.

- Internal audit
  The tasks of the third defence line are the responsibility of an entirely independent internal audit.

Risk management

Risk refers to an uncertain event and its consequence, which can be a threat or an opportunity for the company.

Within the Group, the whole made up of risk management strategies and processes is divided into the following sub-areas:

1. Risk identification
   The business areas and support functions of the first defence line identify and assess the risks that threaten their operations and objectives, in the context of both the annual planning process and daily operational activities. Risk identification and assessment is co-ordinated by the co-ordination teams working under the risk management committee and the Risk Management function.

2. Risk measurement
   During the risk measurement process, the severity of

the risks and their interdependencies are evaluated to the extent possible. The objective of risk measurement is to create commensurable indicators for different risks and to improve the comparability of risks. Risk measurement and comparison are necessary as they allow the targeting of risk management measures on the risks that are most essential for the operations. Risk measurement is based on the Value-at-Risk method. Risk severity and dependency measurement and the methods used in measurement are the responsibility of the Risk Management function, which also co-ordinates them.

3. Risk monitoring
The Group carries out quantitative risk monitoring, con sisting of various risk indicators, and qualitative risk moni toring, which includes, among other things, monitoring, assessment and possible testing out of management measures that have been planned and decided upon. The first defence line ensures that appropriate risk monitoring is in place and that sufficient information on risks is obtained for their management. The first defence line monitors the management measures that it has planned and decided upon and assesses their effectivness. The second defence line, the Risk Management function in particular, carries out independent quantitative and qualitative risk monitoring such that the first defence line can draw on this monitoring as well as possible.

4. Risk management
During the management process, the risks are prioritised and management measures are planned to control or limit the risks. The first defence line, as the risk owner, carries out appropriate risk management and plans the management measures. The second defence line, the Risk Management function in particular, supports, monitors and assesses the management actions undertaken by the first defence line, but, in order to ensure independence, does not participate in making operational decisions. The management instruments used in the vari ous risk areas are described in more detail in sections 3.1 – 3.10.

5. Risk reporting
The materialisation of risks and their effects as well as near-miss situations shall be reported within the Group without undue delay according to the agreed reporting channels. As a general rule, the business areas and sup port functions report to the relevant co-ordination team un der the Risk Management function, through which the Risk Management function gathers information on risks, among other things. The Risk Management function reports the risks to the risk management committees and the relevant Boards of Directors as part of the regular reporting of the function. In serious and urgent matters, the business areas and support functions also report directly to the Managing Director, who reports the matter to the Board of Directors. Similarly, in serious and urgent matters, the Risk Manage ment function can report directly to the Managing Director or the Board of Directors.

These risk management strategies and processes are applied to all of the risk areas of the holistic risk map created to facilitate risk management, which are:

- insurance risks,
- market risks,
- counterparty risks,
- operational risks,
- risks inherent in quantitative methods,
- concentration risks,
- liquidity risks,
- strategic risks,
- reputation risks and
- group risks.

Insurance risks

Insurance risks are related to the insurance company's core business, insurance.

The most significant insurance risks relate to risk selection, sales steering and risk pricing, i.e. they involve a loss risk resulting from the costs arising from future claims (incl. operating expenses) exceeding the insurance contributions received. Insurance risks also include major loss risks (e.g. disaster risks) and the risk inherent in the adequacy of reinsurance covers.

The insurance risks also include a loss risk arising from an unfavourable change in the value of the technical provisions, i.e. the technical provision risk. Technical provision risks relate to the uncertainty of the assumptions made when calculating the technical provisions and to unfavourable deviations of the estimated claim amounts, operating expenses and their cash flows from the actual expenses.

The actuarial risk factors included in the technical provision risk are, among other things, biometric risks (mortality, longevity, disability and similar risks) and different expiry risks, such as the surrender risk in life insurance.

The technical provisions also involve market risks, such as inflation risk and discount rate risk.

Insurance operations are based on taking insurance risks, diversifying the risks within the insurance portfolio and managing them. The most important instruments for managing the risk inherent in unearned premiums relate to risk selection, pricing, insurance terms and conditions and the acquisition of reinsurance cover.

Risk selection provides guidance to sales and ensures the profitability of insurance operations. Risk selection is managed by statistical study of previous losses, which also provide the basis for pricing. The risk selection guidelines specify the types of risks that are insured and the maximum permitted sums insured.

The objective of insurance risk pricing is to achieve the desired risk matching: the bigger the risk, the higher the price and vice versa. The pricing requires accurate and adequate information and sufficient knowledge about the insured target. Only this makes it possible to appropriately apply different risk analyses and determine a sufficient level of insurance premium.

Insurance terms and conditions are an essential tool for controlling insurance risks. They determine, for example, the scope of the insurance cover and the restrictions on compensable damages. In managing insurance risk, it is important to exclude undesired risks or to limit them by way of agreements to a desired level.

In calculating the technical provisions, different quantitative methods are used, the management of which plays a key role in the management of the technical provision risk. In addition to the methods used, the sufficiency and quality of the available information and its management essentially affect the nature of the technical provision risk.

In life insurance, legislation restricts the right of a life insurance company to increase premiums or to alter the insurance terms and conditions. Thereby the duration of the contracts affects the biometric risks inherent in the technical provision risk. If the assumptions made turn out to be insufficient and the insurance premiums cannot be adjusted, the technical provisions must be supplemented by an amount equalling the expected loss.

Reinsurance is used to hedge against and manage major losses and loss events. The use of reinsurance implies ancillary risks, such as reinsurance availability, price and counterparty risks. In life insurance operations, the use of outward reinsurance is minor and therefore concentrated on a few counterparties.

Market risks

Market risk refers to a risk of loss resulting, either directly or indirectly, from fluctuations in the level and volatility of the values of financial market variables, such as interest rates, equities, real estate, exchange rates and credit margins.

Investment operations and their management play a special role in managing market risks. The most significant risks are related to a decline in the value of investments and the poor matching of the investments with the nature of the technical provisions (ALM risk).

The main instruments for managing market risks are related to the selection of investment instruments, diversification of the investment portfolio and risk limitation.

A prerequisite for managing market risks is to invest assets in property and instruments with risks that can be identified, measured, monitored, managed and reported. In addition, predetermined measures are taken concerning new assets and investment instruments prior to their acquisition to ensure that the new assets or investment instruments are manageable and suitable with regard to the business and risk management.

A sufficiently broad diversification of investments is used to achieve optimal diversification benefits, risk-adjusted returns and asset and liability matching.

A key instrument for managing market risks is the use of risk budgeting in solvency management. Allocation restrictions are used to ensure that investment assets have been allocated broadly enough over different asset classes. In addition, more detailed restrictions are determined to ensure sufficiently broad diversification also within asset classes.

QUANTITATIVE DATA ON RISK VARIABLES IN FENNIA LIFE'S INVESTMENT PORTFOLIO

	Impact of change on Fennia's solvency capital	
Fixed-income investments	Interest rate +1 percentage point	EUR -15 million
Equity investments	Change in value -20 %	EUR -21 million
Real estate investments	Change in value -20 %	EUR -15 million

Counterparty risks

The counterparty risk takes into account possible losses resulting from the unexpected insolvency of the insurance company's counterparties.

As with market risks, a prerequisite for managing counterparty risks is to ensure that the counterparties and related risks can be identified, measured, monitored, managed and reported.

A counterparty risk mainly arises (because credit margin risk is treated as market risk) from

- the other party to a derivative contract, in which case only the possible positive market value of the contract is exposed to the risk, and
- receivables from insurance customers.

In managing the derivative contract counterparty risk, the counterparty risk is assessed prior to concluding a contract with the counterparty. The ratings given by credit rating agencies are a primary tool used in assessing the creditworthiness of issuers and counterparties. To limit the counterparty risk, a minimum level has been determined for creditworthiness and limits have been set on maximum liability per counterparty.

Counterparty risks also arise from receivables from insurance customers. The counterparty risk arising from premium receivables from customers is usually extremely small, because the non-payment of insurance premiums leads to the cancellation or reduction of the insurance cover.

Operational risks

Operational risks within the Fennia Group refer to a risk of loss resulting from:

- inadequate or failed internal processes
- personnel
- systems
- external factors.

Legal risks are included in operational risks. Risks arising from strategic decisions and reputation risks have been excluded from operational risks.

The objective of managing operational risks is to reduce the probability of unexpected losses, i.e. to minimise risks. The most efficient risk management measures are targeted at the most serious operational risks. The most serious operational risks are risks which are unlikely to materialise but when they do, they have a major impact on operations.

The Fennia Group's operational risk management framework is based on collecting data on operational risks from various sources, which include, for example, internal audits, risk indicators, scenario-based estimates, internal damage and loss data and near miss situations. The scenario-based estimates in particular play a key role in the proactive assessment of operational risks. The business areas and support functions hold primary responsibility for collecting data on operational risks and reporting it to the Risk Management function.

On the basis of the data collected from various sources, a risk profile is created for the operational risks and the necessary reports are produced for the Board of Directors and other internal purposes. In the longer term, systematic risk assessment improves the level of risk management and helps business areas and support functions to understand and manage operational risks.

Preparedness and contingency plans have been drawn up for the most important business areas to ensure that key functions can be continued in the event of a crisis.

Within the Fennia Group, operational risks are divided into the following categories:

- internal malpractices
- personnel risks
- legal risks
- problems and business interruption losses related to information, telecommunications and telephone systems
- risks related to customers, products and business practices
- risks related to processes
- risks related to the activities of external operators.

Risks inherent in quantitative methods

A quantitative method refers to the creation of numerical estimates by applying statistical, economical, financial or other mathematical theories and methods. Quantitative methods also include methods which aim to produce a numerical outcome and which are partly or fully based on subjective expert appraisal.

A quantitative method can be erroneous and/or misleading and lead to unreliable reporting and incorrect conclusions and thus incorrect measures undertaken by Management.

Quantitative method risks are included in operational risks, but due to their special nature and importance and to facilitate their handling, these risks are identified, measured, monitored, managed and reported as a risk area in its own right.

In the management of risks inherent in quantitative methods, attention is paid to risks which relate to

- mathematical theory,
- the quality of information,
- estimation and parametrisation,
- documentation,
- validation,
- personnel,
- information systems and
- processes.

A guiding principle in managing the risks inherent in quantitative methods is efficient questioning of the methods and processes. This means that an independent and expert party should critically analyse and assess the methods and processes.

The management of risks inherent in quantitative methods is based on the structure, mathematical theory and logic of each method being well documented and supported as much as possible by scientific research and/or best practices of the insurance sector. In order to be able to identify a method's strengths and weaknesses, it is important that the mathematical real-world simplifications, numerical methods and approximations and the use of subjective expert appraisal are analysed and documented with sufficient accuracy. The owner and developers of the method must ensure that the various elements of the method function as desired, are suited to the intended purpose and that the method is mathematically correct and the estimated parameters are statistically reliable.

Managing the quality of the data is just as important as managing the structure, theory or logic of the method. Reliability can only be achieved through high-quality data.

The validation of a quantitative method comprises processes and procedures which aim to verify that the method is appropriate and reliable and functions in the desired manner. Validation is used to identify possible weaknesses and limitations of the method as well as problems related to its use, and to assess and manage their impacts.

Concentration risks

Concentration risk refers to all kinds of risk concentrations involving losses which may be high enough to jeopardise the insurance company's solvency or financial position. Concentration risks most often arise from investment operations, but they may also arise from insurance operations and from the combination of these.

The management of investment, market and counterparty risks is based on diversification, which basically prevents any significant concentration risks. An exception to this rule is the so called strategic holdings which may lead to major concentration risks.

Insurance operations are based on risk diversification within the insurance portfolio in order not to put too much weight on a single insurance target under the company's responsibility. This risk is managed through, among other things, risk selection guidelines and reinsurance.

Liquidity risk

Liquidity risk refers to a risk of not being able to meet future payment obligations or of only being able to meet them through special measures.

Liquidity risk is divided into short and long term risk. Short term liquidity risk refers to risks that are related to asset and liability cash flows lasting less than 4 months (cash management risks). Long term liquidity risk refers to asset and liability matching risks spanning several years, even decades into the future (cash-flow-based asset and liability matching risk).

Long term liquidity risk is managed by maintaining a sufficient liquidity reserve and by liquidity planning. Liquidity reserve is managed by, among other things, the following principles:

- A minimum allocation is given to money market investments.
- Convertibility into cash is required of equity and fixed income investments.
- Money market investments are diversified and counterparty limits are set for them.
- The amount of non-liquid investments in the portfolio is limited.

When planning liquidity, daily forecasts are created on outgoing payments for the next four months. The objective of short term liquidity risk management is to ensure that there will be no need to realise investments other than money market investments and that there will be no need to use or realise the short term liquidity reserve built up by asset managers.

Long term liquidity risk is monitored and reported as a separate risk; however, it is not managed as a separate risk, but instead its management is integrated in the management of interest rate risk.

Strategic risks

Strategic risks refer to risks which are related to the insurance company's strategy and result from incorrect business decisions, incorrect or failed implementation of business decisions or the inability to adjust business operations to changing conditions or to take the desired future state into consideration.

Strategy refers to a series of long term plans and measures used by the insurance company to move from the current state into the desired future state.

Strategic risks entail many different dimensions, and they have been divided into the following groups:

- Strategic macrorisks, which are related for example to changes in demographic, social security and culture trends, changes in regulation, authority supervision and policy and changes in climate and geopolitical trends.
- Sector-specific strategic risks relate to changes in competition in the insurance or financial sector and in the demand of policyholders or investors.
- Strategic risks inherent in internal operations can be, for example, expansion risks, risks related to internal development and to the availability of additional capitalisation.

The basis for the management of strategic risks is to identify the strategic risks of the Group and each subsidiary, to observe various weak signals and to assess how different events, trends and scenarios will affect the sustainability of operations and the development of the financial position in both the short and long term.

Reputation risk

Reputation risk refers to a risk of damage to the Fennia brand or the public image of a single company belonging to the Fennia Group. Reputation risks can also result from partners, if their values and/or operating principles differ from those of the Fennia Group.

Reputation risks usually are a consequence of other materialised risks or events, such as the materialisation of operational risks.

The starting point for the management of reputation risks is to identify the possible events that can negatively affect the Group's or a Group company's reputation. Reputation risk differs in nature from other risks in that reputation risk events can be real or they can, either fully or partly, have no basis in reality (for example a baseless rumour). Reputation risks are often preventable or at least the effect of the events can usually be reduced.

The management of reputation risk is based on good overall knowledge and understanding of the business and its restrictions. Reputation risk cannot be managed as a separate risk area, it is rather an extension of the management of operational risks. Once the risks affecting reputation risk have been identified, various risk-reducing measures, reporting procedures and internal communications can be required within the organisation.

Successful reputation risk management is also based on clear and well-thought-out external communications. It is important for the message to be correct and communicated to the right recipient by the right emitter.

Reputation risk management also involves compliance with laws, regulations and provisions and operating in accordance with the requirements set by authorities. The public image and reliability of an insurance company may significantly suffer from non-compliance with laws, regulations and provisions and requirements set by authorities.

Group risks

Group risks refer to risks arising from Fennia and its subsidiaries operating in the form of a Group. Group risks can be divided into the following groups:

- transaction risks;
- contagion risks;
- conflict of interest risks;
- concentration risks and
- risks related to administration.

Transaction risks refer to risks that relate to intra-Group transactions, for example appropriate pricing.

Contagion risks include situations in which the problems faced or the risks taken by one company spread to the other Group companies or to the whole Group. This group also includes risks relating to a loss of moral (moral hazard risks), referring to situations in which an excessive risk intentionally and immorally taken by one company and the resulting loss are transferred to be borne by the parent company or the other subsidiaries either in part or in full.

Conflict of interest risks arise when the interests of the subsidiaries, the parent company and/or the entire Group collide.

Concentration risks arise if a single counterparty becomes too significant on the Group level, even though the riskremains within the permitted limits for single companies.

Risks related to administration result from the fact that some of the operations are organised on the Group level and some on the level of individual companies. The differences in the companies' administrative systems can lead to co-ordination challenges and additional risks.

The management of group risks is based on a clear Group structure. In complicated ownership patterns, group risks become more important. In addition, appropriate group risk management is based on planning and monitoring business on the level of both the individual companies and the Group. That is the only way to ensure and monitor the development of the group objectives and their achievement.

The management of group risks is also based on consistent and transparent definition and implementation of the internal control system and particularly the risk management and compliance system and related reporting procedures within the Group. The roles and responsibilities of the various bodies must also be clear and identified from the Group's perspective.

Solvency management

Risk bearing capacity refers to the company's assets that are available for covering losses. Risk appetite refers to the degree of risk the company is willing to take to achieve its business targets; in other words, the extent to which the company is ready to tie its own assets to risk-taking. Risk tolerance refers to the extent to which the company's assets are allowed to fluctuate when seeking to achieve the business targets.

The objective of risk and solvency management within the Group is to support the achievement of business goals and the continuity of business operations. This is done by ensuring that the risks taken are correctly proportioned in relation to risk bearing capacity, risk appetite and risk tolerance and by creating conditions for trouble-free operations even in the case of unexpected losses by identifying the threats and opportunities that affect the implementation of the business strategy and the achievement of other targets.

General risk appetite and risk tolerance are managed by setting indicators and target limits for the most significant risks and combined risks (risk budgeting). The set risk-specific restrictions must efficiently limit the Fennia Group's risk profile to keep solvency and risk-taking under control and within the permitted limits.

Preparation for Solvency II

The preparation of the Solvency II framework is still in progress, and the date of its entry into force is uncertain.

During 2012, risk management was developed towards compliance with the future Solvency II regulations. The most significant investments were made in the development and streamlining of technical calculation and internal and external reporting.

The objective is to make the practical transition towards the Solvency II system gradually during 2013 and 2014.

Board of Directors' Proposal on the Disposal of Profit

Fennia Life's distributable funds totalled EUR 44,191,400.14. The company's profit for the financial year was EUR 6,978,642.35. The Board of Directors proposes that no dividend be paid and that the profit for the financial year be transferred to retained earnings.

Helsinki, 4 March 2013

Eero Lehti	Matti Ruohonen	Matti Carpén
Eeva Grannenfelt	Antti Kuljukka	Antti Vaahto

Seppo Rinta
Managing Director

Auditor`s Report

To the Annual General Meeting of Fennia Life Insurance Company Ltd

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Fennia Life Insurance Company Ltd for the year ended 31 December, 2012. The financial statements comprise the consolidated balance sheet, income statement and cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of financial statements and report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Insurance Company Act, the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 15 March 2013
KPMG OY AB

Mikko Haavisto
Authorized Public Accountant

Alex Wahlroos
Authorized Public Accountant

Fennia Life's Board of Directors and Management

Board of Directors

CHAIRMAN
Mikael Ahlbäck
Managing Director
Rani Plast Ltd
Teerijärvi

VICE CHAIRMAN
Matti Ruohonen
Ph.D., Actuary approved by the Ministry of Social Affairs and Health
Turku

BOARD MEMBERS:

Matti Carpén
Deputy Managing Director
Pension Fennia
Helsinki

Eeva Grannenfelt
Director, Investments
Pension Fennia
Helsinki

Antti Kuljukka
Managing Director
Fennia
Helsinki

Eero Lehti
Kauppaneuvos (Finnish honorary title),
Chairman of the Board
Taloustutkimus Oy
Helsinki

DEPUTY MEMBERS

Eero Eriksson
Deputy Managing Director
Fennia
Helsinki

Olavi Nieminen
Chairman of the Board
Piiloset Oy
Lieto

SECRETARY TO THE BOARD:
Heimo Äikäs
General Counsel
Fennia
Helsinki

Auditors

KPMG OY AB
AUDITORS:

Mikko Haavisto
Authorised Public Accountant

Alex Wahlroos
Authorised Public Accountant

DEPUTY AUDITORS:

Tiia Kataja
Authorised Public Accountant

Marcus Tötterman
Authorised Public Accountant

Management

Seppo Rinta
Managing Director

Olli Hokkanen
Head of IT

Ari Koskinen
Director, Customer Service, Development of Services and Products

Päivi Ojala
Actuaries Director

Aarni Pursiainen
Investment Director
Kari Wilén
Sales and Marketing Director

Physicians

Lauri Keso
Doctor of Medical Science
Specialist in Internal Medicine and Rheumatology

Juha Liira
Doctor of Medical Science
Specialist in Occupational Health and Medicine

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